California Hotel Foreclosures Double in Last Three Months

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From Watch List reader, Alan X. Reay, founder and president of Atlas Hospitality Group in Irvine, CA, comes this astounding statistic. The number of California hotels in default or foreclosed on has jumped 125% in the last 60 days. The state now has 31 hotels that have been foreclosed on and 175 in default.

With 19.6% of the total, San Bernardino County leads the state in foreclosed hotels. Riverside County follows with 16.1% and San Diego County has 12.9%. Los Angeles County, with 12% of the total, has the most hotels in default. San Bernardino County is next with 9.7% and San Diego County follows with 8%, according to Atlas Hospitality.

"Initially, the wave of distress in California was seen by the smaller, non?flagged hotels in secondary and tertiary markets," Reay said. "As the hotel economy worsened, we have seen it impact all property types. The properties range from the luxurious St. Regis Monarch Beach Resort (pictured) in Dana Point to the more economical Extended Stay and Red Roof Inn chains. No market or brand is immune in this downturn."

Non?franchised hotels account for a disproportionate number of foreclosures. They make up about 87% of the total. However, franchised hotels make up 59% of the defaulted properties.

"In reviewing the hotels in default or foreclosed on, we found that over 75% of the loans originated from 2005 to 2007. During this period, over 2,500 California hotels either refinanced or obtained new purchase loan financing," Reay added. "Unfortunately, based on today's market values, we estimate that none of these hotels have any equity remaining. The unprecedented decline in room revenues (California is down 21.5% year?to?date) combined with the jump in cap rates has resulted in a massive loss in values. We estimate that values are currently 50 to 80% lower than at the market's peak in 2006?2007."

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